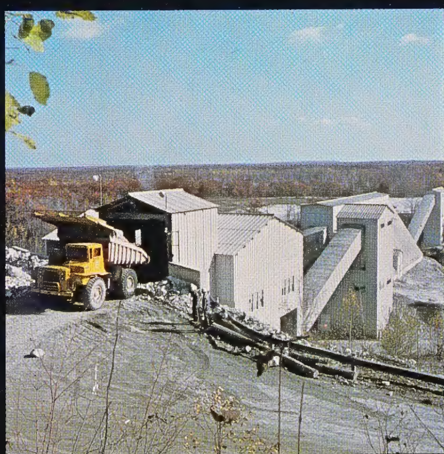
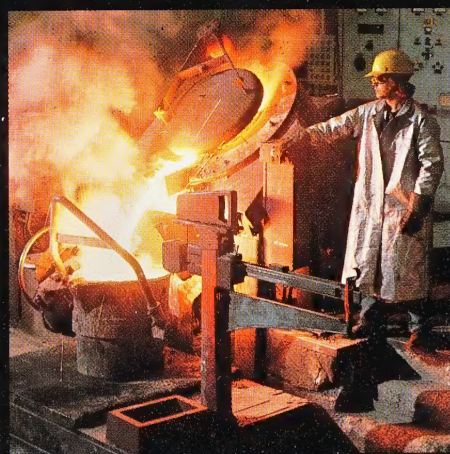
Annual Report for the Year 1977





indusmin limited

indusmin limited

Year in Brief
(Fiscal Year ended December 31)

	1977	1976 (Restated)
Net Sales		
Minerals Division	$26,304,000	$21,447,000
Castings Division	16,138,000	17,384,000
Total	$42,442,000	$38,831,000
Earnings		
Income before taxes	$ 3,075,000	$ 4,187,000
Taxes	1,004,000	1,438,000
Net income before minority interest	2,071,000	2,749,000
Minority interest	23,000	21,000
Net income before extraordinary item	2,048,000	2,728,000
% of Sales	4.8%	7.0%
Extraordinary item	—	163,000
Net earnings	$ 2,048,000	$ 2,891,000
Financial Position		
Cash flow	$ 4,959,000	$ 5,795,000
Working capital	$ 5,616,000	$ 3,789,000
Shareholders' equity	$19,461,000	$18,405,000
Return on equity	10.5%	15.7%
Total assets	$36,586,000	$32,895,000
Shares issued	1,167,901	1,167,901
Shareholders	2,233	2,639
Employees	831	950
Per Common Share		
Quarterly earnings (loss)		
First	$ (.04)	$ .13
Second	.69	.83
Third	.39	.93
Fourth	.71	.50
Net earnings	$ 1.75	$ 2.39
Cash flow	$ 4.25	$ 4.96
Dividends paid	$ .85	$ .81
Shareholders' equity	$16.66	$15.76

This report is available in French. If you wish a copy please contact W.R. Robertson at the head office address.

The Annual and Special General Meeting of the Shareholders of Indusmin Limited will be held in the Casson Room, at the Hotel Toronto, 145 Richmond Street West, Toronto on Wednesday, April 5th, 1978, at the hour of 11:00 o'clock in the forenoon.

Head Office

P.O. Box 40, Commerce Court West
Toronto, Ontario M5L 1B4

Executive Office

365 Bloor Street East
Suite 200
Toronto, Ontario M4W 1H7

Directors

MARSH A. COOPER
President & Managing Director
Falconbridge Nickel Mines Limited

†*W.E. CURRY
Waterloo, Ontario
Chairman, Department of Business
Sir Wilfrid Laurier University

W.G. DAHL
Group Vice-President
Falconbridge Nickel Mines Limited

F. DONALD HART
Arlington, Virginia
Former President
American Gas Association

*J.D. KRANE
Toronto, Ontario
Vice-President, Corporate Affairs
Falconbridge Nickel Mines Limited

*R.E. PARÉ
Montreal, Quebec
Executive

†C.M. WOODRUFF
Toronto, Ontario
Executive Vice-President

*Member of the Audit Committee
†Member of the Executive Committee

Transfer Agents

Crown Trust Company
302 Bay Street
Toronto, Ontario M5H 2P4

Auditors

McColl, Turner & Co.
Peterborough, Ontario K9H 3J6

Solicitors

Strathy, Archibald, Seagram and Cole,
Suite 1700 - 110 Yonge Street
Toronto, Ontario M5C 1T7

Officers and Corporate Management

MARSH A. COOPER
President & Managing Director

C.M. WOODRUFF
Executive Vice-President

R. LAVERTU
Senior Vice-President, Minerals Division

J.L. CAYLOR
Senior Vice-President, Castings Division

G.E. DALE
Vice-President, Finance

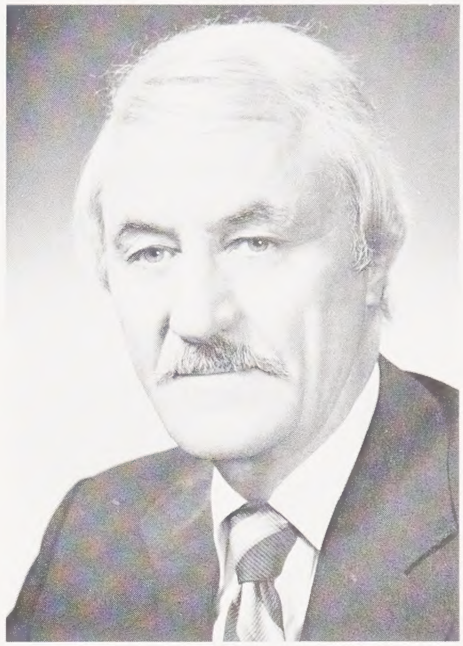
D.B. DAWKINS
Vice-President, Marketing
Minerals Division

W.R. ROBERTSON
Secretary

N.H. WITHERELL
Treasurer

G.A. JACKSON
Controller

PL Munro



In Memoriam

John J. Mather, President and Managing Director of Indusmin, Chairman of the Board of Fahramet Limited, and Group Vice-President of Falconbridge Nickel Mines Limited lost his life in a tragic air crash near Barrie, Ontario in September, 1977 that also took the lives of four other Falconbridge executives.

During the 31 years Mr. Mather served with Indusmin he provided strong and wise leadership to the company. Under his guidance, Indusmin has grown from a small producer of one mineral to the present multi-plant, multi-product company producing minerals and steel castings.

He held the respect and admiration of all who came in contact with him and was an inspiration for those who worked with him.

To honour his memory and in recognition of his contributions as a founding member of the Ontario Crafts Council, the John Mather Fund has been established by the Council with Indusmin support. Proceeds from the Fund will be used to further the development of craft activities in Ontario.

Report to Shareholders

Consolidated sales revenue of $42,442,000 represents an increase of 9 per cent over 1976 and establishes a new high for the Company. The increase was attributable to record sales of nepheline syenite, silica and aggregates, plus the inclusion of six months sales from newly-acquired Lawson-United Feldspar and Mineral Company. These increases offset a 7 per cent decrease in sales from the foundry operations of the subsidiary, Fahramet Limited.

Consolidated net earnings of $2,048,000 before extraordinary items, were substantially below those of 1976, however these represented the second highest earnings in the history of the Company, exceeded only by 1976. In fact, the minerals operations established record earnings. The reduction of earnings from the levels of 1976 was entirely due to decreased sales and highly competitive pricing in the Sand Casting operations of Fahramet. Fahramet itself had a net loss of $182,000 after taxes. While this is disappointing, it does represent a reasonable performance in a very difficult year. The low level of capital investment in Canada in 1977 was the major negative factor affecting castings sales and there are few signs of improvement during the early part of 1978.

Cost reductions, including a 20 per cent reduction in personnel, were instituted at Fahramet during the second half of the year. This action was showing some positive influence by the fourth quarter, and it is expected that in 1978 Fahramet will provide a modest profit if the present level of sales can be maintained.

Lawson-United Acquisition

A significant step, in terms of future growth, was taken in 1977 through acquisition of Lawson-United Feldspar and Mineral Company located at Spruce Pine in the north-west part of North Carolina. The Company was purchased from the Lawson family a prominent leader in the feldspar industry since the 1920's.

Lawson-United commenced operations in 1957 and processes ore from two quarries, one on owned property and the other on property under a long-term lease. A total of approximately 100,000 tons of feldspar, mica and silica are sold each year to glass, ceramic, extender pigment, and filler markets. These feldspar sales add the south-eastern portion of the United States to the market area already served with nepheline syenite. Substantial potential exists for growth in Lawson-United sales beyond the current $2.6 million per year.

The acquisition, which was finalized in October 1977, became effective July 1, 1977. This is the first production operation that Indusmin has had in the United States since 1948 when a nepheline syenite processing plant in Rochester, New York was closed and moved to the mine-site at Nephton, Canada. Lawson-United provides a significant diversification for Indusmin, as well as providing a base for growth in the industrial mineral field in the United States.

Foundry Modernization

Considerable progress was made during 1977 in planning the modernization and expansion program contemplated when Fahramet was acquired. In 1976, a pilot line utilizing resin-bonded "No-Bake" moulding techniques was installed and the research program to evaluate this method of moulding is nearing completion. It is apparent from this research that the "No-Bake" system is limited to production of only certain types of the Fahramet line of castings and would not be feasible as the only moulding method in new facilities. Decisions on spending the capital required for modernization will be made in 1978 and timing will be dependent on recovery of the economy and the ability of Indusmin to carry the required debt-load.

Corporate

On April 7, 1977 Mr. W.G. Dahl, Group Vice-President, Falconbridge Nickel Mines Limited was elected to the Board to fill a vacancy created by the resignation of Mr. E.L. Healy, President and Chief Executive Officer, Falconbridge Engineering and Development Incorporated. The many contributions of Mr. Healy to the Company, as a member of the Board, are gratefully acknowledged.

To fill vacancies that occurred on the death of J.J. Mather, Mr. Marsh A. Cooper, President and Managing Director of Falconbridge Nickel Mines Limited, was appointed as a Director and elected President and Managing Director on February 8, 1978.

Late in the year the management organization of the Company was restructured into two Divisions replacing the previous Industrial Minerals, Construction Materials and Foundry Divisions. Mr. R. Lavertu was appointed Senior Vice-President, Minerals Division with complete operational responsibilities for the nepheline syenite, silica, Lawson-United, and aggregates operations. Mr. J.L. Caylor was appointed Senior Vice-President, Castings Division and assumed operational responsibility for the sand and centrifugal castings, machine shop, and fabrication operations of Fahramet Limited.

Anti-Inflation Program

Indusmin, and its subsidiary Fahramet, are subject to controls under the regulations of the Anti-Inflation Act. To the best of our knowledge the Company is in compliance with these regulations.

While the program ends on April 14, 1978, the Company must continue in compliance to October 1st for wages and benefits, to October 14th for dividends, and to year-end for profits.

Outlook

Consolidated sales in 1978 are expected to achieve a new record, with Lawson-United included for the full year versus one-half year in 1977, and other industrial minerals sales buoyant. The outlook for the construction industry is for continuing low levels of activity, therefore, aggregates sales are forecast to show only a marginal increase. Castings order bookings have been poor for most of the last three quarters of 1977 and there are no signs of this situation improving for several months.

Appreciation

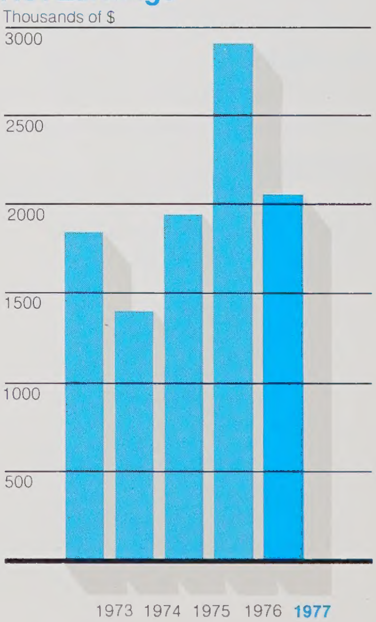
Sincere appreciation is extended to our employees at all locations for their continued efforts, and to shareholders, customers and suppliers for their valuable support during the year.

On behalf of the Board of Directors

C. M. Woodruff

C.M. Woodruff
Executive Vice-President

Net Earnings



Financial Review

At $2,048,000, Indusmin Limited's 1977 earnings were down 29% from 1976. On a per share basis, earnings were $1.75 in 1977 compared to $2.39 in 1976.

The deterioration of shipments and profit margins in the sand casting operations at Orillia had a particularly adverse effect on earnings. Record sales and earnings in the Minerals Division failed to off-set this decline.

Lawson-United sales totalling $1,402,000 for the six months ended December 31, 1977 are included in the Minerals Division sales.

Source of Funds

Cash from operations amounted to $4,959,000 ($4.25 per share) versus $5,795,000 ($4.96 per share) in 1976. This was augmented by long term borrowings of $3,873,000 (U.S. $3,500,000), used to finance the purchase of Lawson-United.

Capital Spending

Capital spending for the year, excluding the assets of Lawson-United totalled $2,295,000 down $258,000 from 1976.

The major expenditures in 1976 included replacement of mobile equipment.

Funds necessary for 1978 capital projects are estimated at $2,340,000.

Dividends

During the year dividends totalling 85 cents per share, including an extra 35 cents per share, were paid. The increase of 4 cents per share was in accordance with Anti-Inflation Board regulations.

These dividends represent 49% of 1977 net earnings, the remaining 51% was retained in the business.

Debt

Unsecured short term bank advances decreased $770,000 in 1977 to $7,023,000 at December 31st.

During the year the company borrowed $3,500,000 U.S. to finance the purchase of all the outstanding shares of Lawson-United. This debt is to be repaid over 7 years in quarterly installments. The loan is divided into two portions as follows:

a) $1,500,000 for a five year period bearing interest at 9-3/8%.

b) The balance of $2,000,000 bearing interest at either 1¼% of New York prime or LIBOR (London Interbank Offering Rate) plus 1% as selected by the company at various option dates. At year-end the interest rate based on LIBOR was 8-7/8%.

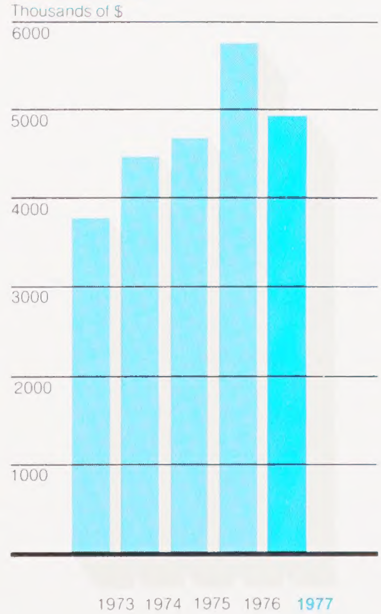
Sales	1977	1976	Change
Minerals Division	$26,304,000	$21,447,000	$ 4,857,000
Castings Division	16,138,000	17,384,000	(1,246,000)
	$42,442,000	$38,831,000	$ 3,611,000

Distribution of Sales Revenue	1977		1976	
Wages & Related Costs	$16,016,000	(37.7%)	$14,845,000	(38.3%)
Materials Supplies & Services	20,784,000	(49.0%)	17,242,000	(44.4%)
Depreciation & Similar Provisions	2,567,000	(6.1%)	2,395,000	(6.2%)
Taxes	1,004,000	(2.4%)	1,438,000	(3.7%)
Minority Interest	23,000		21,000	
Earnings				
— Reinvested in Business	1,055,000	(2.5%)	1,843,000	(4.7%)
— Paid to Shareholders	993,000	(2.3%)	1,047,000	(2.7%)
Sales Revenue	$42,442,000	(100.0%)	$38,831,000	(100.0%)

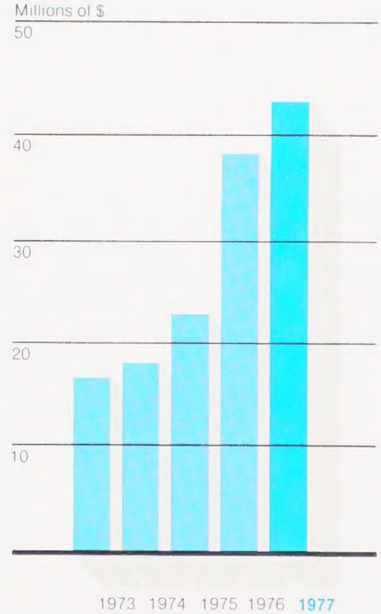
Capital Expenditures by classification	1977	1976
	($000's)	
Increased capacity	$ 20	$1,273
Replacement & Plant modernization	1,403	1,018
Environmental control	776	171
Miscellaneous	96	91
	$2,295*	$2,553*

*Does not include assets purchased from Fahralloy Canada Limited in 1976 and Lawson United in 1977.

Cash Flow



Sales



Operations Review

Minerals Division

R. Lavertu, Senior Vice-President

Nepheline Syenite

Sales revenue and volume were at record levels in 1977. A significant increase in overseas export sales of glass grade more than offset lower sales in Canada and the United States. The latter sales were reduced by severe winter conditions and resultant fuel restrictions at customers' plants early in the year. Capital expenditures of $535,700 are planned for 1978, primarily for equipment replacement and increased capacity.

A two-year collective bargaining agreement will expire in October 1978.

Quebec Silica

Sales increases to the fibreglass and silicon carbide industries accounted for most of the gains. Productivity increases were achieved to establish a tonnage record, however, production facilities are now at capacity. A feasibility study is under way for expansion. Planned expenditures in 1978 are $427,000, mostly for replacement of equipment, and statutory environmental control.

The collective bargaining agreement expired in January 1978 at St. Canut and was being renegotiated at year-end. The St. Donat agreement expires in July 1978.

Ontario Silica

A decrease of 25% in sales of lump quartzite from the Badgeley Island operations to the ferrosilicon industry in the United States was partially offset by an 8.5% increase of sales from the Midland plant. A new product, 325 mesh flour, and improved product mix are planned for 1978 which should result in increased sales revenue and earnings.

Capital expenditures planned for 1978 are $327,000, mostly for process improvement and for production of new products.

The collective bargaining agreements at Badgeley Island and at Midland both expire during April 1978.

Lawson-United

A small decrease in sales revenue for the year was primarily due to severe winter conditions which forced the closing of many glass plants in January and February, 1977. Improvements in productivity and sales are forecast for 1978. Efforts will also focus on development of new products and markets. Capital expenditures of U.S. $115,000 are planned for 1978 for replacement of equipment, process improvements and environmental control.

Detailed engineering studies of processing methods and of ore reserves are in progress. Production capacity is well above current sales levels and should be sufficient to meet sales demand for some time. A diamond drilling program will be undertaken in 1978 to confirm ore reserves and provide background data for control purposes.

The hourly-rated employees are non-union. New increased rates will be implemented in April in accordance with past practice.

Aggregates

Sales of crushed limestone aggregates increased 6.8% from 1976 levels to 2,466,000 tons in 1977. Revenue in the period increased 14.5% to $4,899,000. While the Toronto/Hamilton region remains the major market area for the Acton and Halton quarries, an increase in shipments of specialty erosion control products to more distant markets is being experienced.

Capital expenditures at Acton were concentrated in large part on improving the productivity of the ore haulage fleet together with increasing mobile equipment maintenance facilities. Halton capital expenditures were of a replacement nature. Capital expenditures of $204,000 are planned in 1978.

Both Halton and Acton operated without lost time injuries to employees during 1977.

Owner/operator truckers serving the Halton quarry were found by the Ontario Labour Relations Board to be dependent contractors and were certified for purposes of collective bargaining. Applications for certification by truckers at the Acton Quarry and Scarborough Distribution Yard are under review. The Acton collective bargaining agreement expires October 31, 1978.

Sales	Revenue 1977	Revenue 1976	Tons 1977	Tons 1976
Nepheline Syenite	$ 8,223,000	$ 7,238,000	404,000	388,000
Quebec Silica	6,906,000	5,581,000	476,000	428,000
Ontario Silica	4,874,000	4,350,000	436,000	460,000
Lawson-United (6 months)	1,402,000		62,000	
Aggregates	4,899,000	4,278,000	2,466,000	2,310,000
Total	$26,304,000	$21,447,000		

Capital Expenditures	1977	1976
Nepheline Syenite	$ 423,000	$ 635,000
Quebec Silica	651,000	450,000
Ontario Silica	76,000	247,000
Aggregates	640,000	325,000
Total	$ 1,790,000	$ 1,657,000

Ore reserves proven by diamond drilling and mine development	Tons	Years Supply (approx.)
Nepheline Syenite	21 million	40
Quebec Silica	17 million	30
Ontario Silica	14 million	28
Aggregates — Acton	98 million	49
Aggregates — Halton	24 million	34

Castings Division

J.L. Caylor, Senior Vice-President

Fahramet Limited

N.A. Dobbie, Executive Vice-President

Sales were $1,246,000, or 7 per cent, lower than the 1976 level and reflect continuing softness of the Canadian capital investment market. Reductions in sales were encountered entirely in the Sand Casting operations. Major reductions in manpower and operating costs were effected during the year to offset the reduction in sales and the extremely competitive pricing that was experienced. Employment was reduced by 20% during the year.

Sand Casting

Tonnage shipped during 1977 declined by 16% due to lower order bookings, and efforts to optimize product mix. The resultant higher return per ton held the total revenue decrease to 11% below the 1976 level.

The order backlog decreased from $4,780,000 at the beginning of the year to $4,027,000 at year-end, reflecting the continued low level of activity in the Canadian economy and particularly the declines in some segments of the mining industry.

Capital expenditures in 1978 are planned at $314,000. These expenditures will include an expansion of the Division's shell moulding capability. Modernization studies aimed at improving efficiency of older sand moulding facilities are underway.

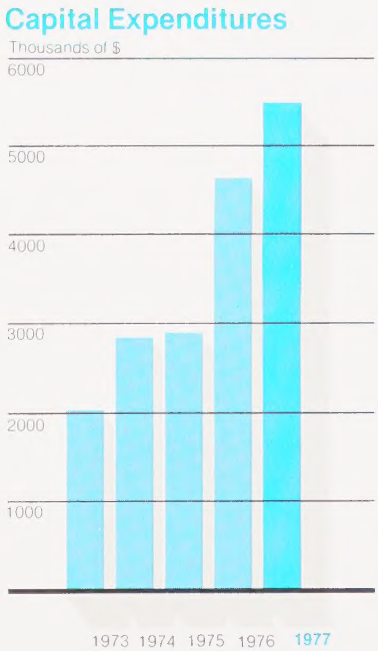
Centrifugal Casting

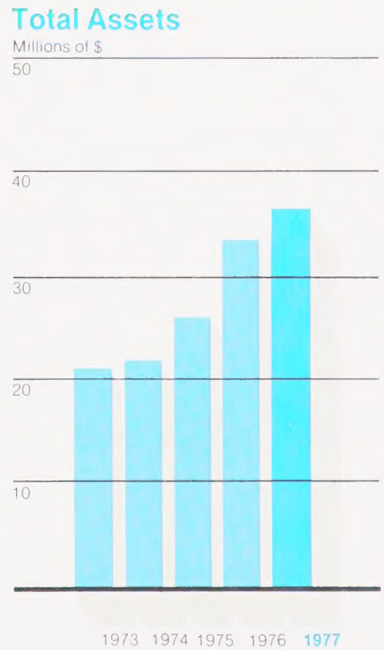
Sales at $6,240,000 equalled the 1976 level, however, backlog declined from $2,643,000 to $1,861,000 at year-end reflecting the continuing softness in the Canadian economy.

Capital expenditures of $325,000 in 1978 will include improvements to melting capacity and casting cleaning facilities.

The hourly-rated employees at Fahramet, being non-union, are represented by an elected Employees Committee which meets with management regarding wage rates, safety, benefits, work hours and environmental matters. In January 1977 rate changes agreed upon and approved by the AIB were implemented. Revisions for 1978 have been submitted to the AIB for approval.

	Revenue		Capital Spending	
	1977	1976	1977	1976
Sand Casting	$ 9,898,000	$11,126,000	$ 397,000	$ 714,000
Centrifugal Casting	6,240,000	6,258,000	61,000	135,000
Total	$16,138,000	$17,384,000	$ 458,000	$ 849,000





indusmin limited (incorporated under the laws of Canada)

Consolidated Statement of Financial Position

December 31, 1977

	1977	1976 Restated (Note 3)
Current Assets		
Cash	$ 329,299	$ 26,346
Accounts receivable for products and freight	7,881,109	7,428,471
Inventories (note 3)	7,780,794	7,915,413
Prepaid expenses and other current assets	465,382	430,435
	16,456,584	15,800,665
less		
Current Liabilities		
Bank advances	7,023,159	7,793,323
Accounts payable and accrued charges	3,343,399	3,715,526
Income and mining taxes payable	4,681	377,214
Principal payments due within one year on long-term debt	469,033	125,764
	10,840,272	12,011,827
Working Capital	5,616,312	3,788,838
Mining properties, mining and manufacturing plant and equipment (note 4)	18,081,943	15,129,356
Other mining properties and expenditures thereon — at cost	643,529	642,900
Unamortized deferred development expenditures	463,908	488,437
Investment in unconsolidated subsidiary (note 5)	321,053	321,053
Investment in associated and other companies (note 6)	438,878	438,878
Loans receivable, secured	69,187	73,590
Goodwill (note 7)	110,830	
Total Assets less Current Liabilities	25,745,640	20,883,052
Long-term debt less amounts due within one year (note 8)	3,517,945	32,662
Deferred income and mining taxes	2,530,573	2,208,900
Minority interest	236,000	236,000
	6,284,518	2,477,562
Shareholders' Equity	$19,461,122	$18,405,490
Ownership Evidenced by:		
Capital stock		
Authorized — 2,000,000 common shares with no par value		
Issued and fully paid — 1,167,901 shares	$10,854,014	$10,854,014
Retained earnings	8,607,108	7,551,476
	$19,461,122	$18,405,490

Approved on behalf of the Board:

M.A. Cooper, Director

W.G. Currie, Director

Consolidated Statement of Earnings and Retained Earnings

year ended December 31, 1977

	1977	1976 Restated (Note 3)
Sales	$42,441,630	$38,831,053
Cost of products sold	31,360,445	27,380,356
Selling, general and administrative expenses	4,820,347	4,254,963
	36,180,792	31,635,319
Operating profit before providing for the undernoted charges	6,260,838	7,195,734
Depreciation, depletion and development expenditures written off	2,566,767	2,394,636
Operating profit	3,694,071	4,801,098
Interest expense	690,768	688,543
Income from investments (note 6)	(71,769)	(74,329)
	3,075,072	4,186,884
Income and mining taxes (note 1)		
Currently payable	682,396	948,812
Deferred	321,673	489,400
	1,004,069	1,438,212
Net income before extraordinary items	2,071,003	2,748,672
Settlement received in respect of interest related to expropriation proceedings at St. Canut, less income taxes attributable thereto		162,597
Earnings before minority interest	2,071,003	2,911,269
Minority shareholders' interest in earnings of subsidiary company	22,656	20,768
Net earnings for the year	2,048,347	2,890,501
Retained earnings, beginning of year	7,551,476	5,708,054
	9,599,823	8,598,555
Dividends paid		
On preference shares		101,079
On common shares	992,715	946,000
Retained earnings, end of year	$ 8,607,108	$ 7,551,476
Earnings per common share		
— before extraordinary item	$1.75	$2.25
— after extraordinary item	1.75	2.39

Auditor's Report to the Shareholders

We have examined the consolidated statement of financial position of Indusmin Limited as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peterborough, Ontario
January 26, 1978

McColl, Turner & Co.
CHARTERED ACCOUNTANTS

Consolidated Statement of Changes in Financial Position

year ended December 31, 1977

	1977	1976 Restated (Note 3)
Source of Funds		
Net earnings for the year	$ 2,048,347	$ 2,890,501
Charges against operations which did not require a cash outlay during the year:		
Depreciation, depletion and development expenditures written off	2,566,767	2,394,636
Income and mining taxes deferred	321,673	489,400
Minority shareholders' interest in earnings of subsidiary company	22,656	20,768
	4,959,443	5,795,305
Term loan, U.S. $3,500,000 (note 8)	3,873,490	
Loans assumed on acquisition of Lawson-United Feldspar and Mineral Company (note 8)		
Mortgage loan	25,411	
Note payable	55,415	
Proceeds from the issue of 20,000 cumulative, redeemable 8.9% preference shares (par value $100.00 each)		2,000,000
Proceeds from the issue of Class A preference shares of subsidiary company		236,000
Principal payments on loans receivable and sundry recoveries	4,403	11,213
	8,918,162	8,042,518
Application of Funds		
Purchase of goodwill (note 7)	110,830	
Expenditures on plant and equipment (net)	5,495,454	4,648,820
Redemption of 20,000 cumulative, redeemable 8.9% preference shares at par value		2,000,000
Provision for payments on notes and mortgage loans	469,033	125,763
Dividends paid to shareholders — on preference shares		101,079
— on common shares	992,715	946,000
Dividends paid by subsidiary to minority interest	22,656	20,768
	7,090,688	7,842,430
Increase in Working Capital	1,827,474	200,088
Working Capital, beginning of year	3,788,838	3,588,750
Working Capital, end of year	$ 5,616,312	$ 3,788,838

Notes to Consolidated Financial Statements

December 31, 1977

1. Summary of Significant Accounting Policies

The company follows the generally accepted accounting principles described below. These, together with the notes which follow, should be considered an integral part of the consolidated financial statements.

(a) Basis of consolidation

(i) The consolidated financial statements include the accounts of Indusmin Limited and all companies in which the common shares are owned by the company or its subsidiaries. They include the accounts of ANC Minerals, Inc. from July 1, 1977 when that company effectively commenced business and the accounts of Lawson-United Feldspar and Mineral Company subsequent to acquisition as of July 1, 1977. The comparative figures for 1976 do not include those related to ANC Minerals, Inc. or to Lawson-United Feldspar and Mineral Company.

(ii) The financial statements of the majority-owned foreign subsidiary company, Klukwan Iron Ore Corporation, have not been consolidated with those of Indusmin Limited. As a matter of corporate policy, the investment in the shares of this company is carried at cost.

(b) Translation of foreign currencies

Foreign currency assets and liabilities of the company and its consolidated subsidiaries are translated into Canadian dollars as follows: working capital at exchange rates prevailing at December 31, 1977; fixed and other long-term assets, long-term debt and depreciation provisions on the basis of historic rates of exchange; revenues and expenses (other than depreciation) at average rates during the year. Exchange gains and losses from the translation procedures are included in consolidated earnings.

(c) Inventories

Inventories of materials, supplies, work in progress and finished goods are valued at the lower of average cost and net realizable value.

(d) Depletion, depreciation and amortization

All property, plant and equipment is recorded at cost. The cost and related accumulated depreciation of items retired or disposed of are removed from the accounts and any gains or losses are included in the consolidated statement of earnings. Repairs and maintenance are charged against earnings as incurred; betterments and replacements are capitalized.

Depletion of aggregate deposits is provided on the basis of ore withdrawn. The cost of other industrial mineral deposits is being amortized, commencing in 1971, over twenty-five years. Depreciation is provided using the straight-line method to amortize the cost over the estimated useful life of each class of depreciable property. The useful lives are estimated as follows: in the minerals division, 12 years for buildings and 6 to 12 years for equipment; in the castings division, buildings 25 years and equipment 6 to 12 years; in Lawson-United Feldspar, 5 to 25 years.

(e) Development and pre-production expenditures

Expenditures on development of ore bodies prior to the commencement of production are deferred in the company's accounts. The amounts so deferred with respect to aggregate deposits are being written off over twelve years on the straight-line basis — in the case of the other ore bodies, these expenditures are being amortized on the basis of ore withdrawn as a percentage of estimated ore reserves in the particular deposits.

(f) Income and mining taxes

The company, in accounting for income and mining taxes, uses the deferral method of tax allocation to determine the total taxes applicable to the net earnings of the year. The taxes currently payable in any particular year may vary from the taxes applicable to the earnings of that year by reason of timing differences which arise when expenses recorded in the accounts differ from related amounts claimed in calculating taxable income. As a result of such timing differences in 1977, the payment of taxes totalling $300,308 has been deferred to future years. Additionally, non-resident tax of $21,365 on the earnings of U.S. subsidiaries has been deferred pending payment of dividends to Indusmin Limited.

2. Acquisition

Effective July 1, 1977 the company acquired through subsidiary companies all issued shares of Lawson-United Feldspar and Mineral Company of Spruce Pine, North Carolina for U.S. $3,800,000. The purchase price of the shares exceeded the net book value of the net assets as recorded on the basis of historic cost by Lawson-United Feldspar and Mineral Company at June 30, 1977 by U.S. $2,167,252. Of this amount U.S. $100,000 has been recorded as representing the cost of goodwill acquired. The remaining $2,067,252 will be allocated to specific assets upon completion of independent detailed appraisals. The major portion — U.S. $3,500,000 — of the financing involved has been provided by a loan from The Toronto-Dominion Bank through its New York Agency to the subsidiary company, American Nepheline Corporation. The details of this loan, which is guaranteed by Indusmin Limited and secured by the shares of Lawson-United Feldspar and Mineral Company, are set out in Note 8.

3. Inventories and Inventory Restatement

	1977	1976
Minerals Division		
Crude ore and finished products	$2,328,701	$2,094,503
Operating supplies and spare parts	2,044,146	1,794,039
Castings Division		
Raw materials	1,658,004	1,691,533
Work in progress	1,332,729	1,946,374
Operating supplies and spare parts	417,214	388,964
	$7,780,794	$7,915,413

The work in progress inventory of the castings division at December 31, 1976 has been restated to recognize an overvaluation of $204,639 due to a previously undetected computer programme error. Net income for 1976, after reflecting the related reduction in income taxes currently payable, is $118,690 less than previously reported. The comparative figures for 1976 have been restated to show the revised amounts.

4. Mining Properties, Plant and Equipment

	1977		1976
	Cost	Net book value	Net book value
Minerals Division	$33,402,541	$10,011,211	$10,438,366
Castings Division	4,890,737	3,513,006	3,329,714
Lawson-United Feldspar	3,284,979	3,192,718	
Mining properties and land	1,660,114	1,365,008	1,361,276
	$43,238,371	$18,081,943	$15,129,356

The cost — $3,284,979 — at December 31, 1977 represents the fair value of the assets acquired through the purchase of the shares of Lawson-United Feldspar and Mineral Company. Independent detailed appraisals of the property, plant and equipment at Spruce Pine, North Carolina are projected to permit the determination of the cost of the individual assets. Pending completion of the appraisal, depreciation has been provided based on the historic cost of property, plant and equipment. Acquisition costs of $40,158 are being amortized on the straight-line basis over six years.

5. Investment in Unconsolidated Subsidiary

The investment in Klukwan Iron Ore Corporation, carried at cost, represents 96.1% of the issued Class A shares of that corporation with a voting interest of 94.1% and a 71.0% interest in earnings. The company owns a large low-grade iron ore deposit in Alaska which is under lease until the year 2036 to United States Steel Corporation or assignee for a minimum annual royalty, currently, of $100,000. The lessee has the right to (a) purchase the deposit for $10,000,000 less all royalties paid to date — which at December 31, 1977 totalled $1,087,695, (b) terminate the lease on ninety days' notice. The relevant financial data, expressed in U.S. dollars, is set out below:

	1977		1976	
	Total	Indusmin's share*	Total	Indusmin's share*
Net book value	$400,537	$284,381	$395,123	$278,562
Working capital	225,244	159,923	219,828	154,979
Net income	69,349	49,238	70,697	49,841
Dividends paid	59,995	42,600	60,388	42,600

* based on the 71.0% interest in earnings (1976 — 70.5%)

Indusmin Limited has taken into income in 1977, U.S. $36,210 being a dividend of U.S. $42,600 less U.S. non-resident tax thereon. The comparable net dividend in 1976 was U.S. $36,210.

6. Investment in Associated and Other Companies

The company's investments are detailed as follows:

	Number of shares	Indicated market value	Cost
Falconbridge Nickel Mines Limited	16,759	$347,750	$433,196
Quebec Cobalt and Exploration Limited	43,200	34,128	4,968
Other			714
		$381,878	$438,878

The market values shown above are based upon closing market prices on December 31, 1977 and, due to the number of shares involved, are not necessarily indicative of the amount that could be realized on sale.

Income from investments	1977	1976
Dividends received		
Falconbridge Nickel Mines Limited	$ 8,380	$16,759
Klukwan Iron Ore Corporation	46,622	43,367
Chavin of Canada Limited	571	
Interest income from loans and sundry deposits	16,196	14,203
	$71,769	$74,329

7. Goodwill

Effective January 1, 1978 the goodwill, which is attributable to the acquisition of the subsidiary company, Lawson-United Feldspar and Mineral Company (note 2), will be amortized on a straight-line basis over 10 years.

8. Long-term Debt

At December 31, long-term liabilities are as follows:

	1977	1976
Term loan payable in U.S. funds in quarterly instalments of $100,000 in 1978-1980 commencing March 31, 1978; increasing to $125,000 quarterly in 1981 and, thereafter, at the rate of $150,000 quarterly (for details related to interest, see below) — U.S. $3,500,000	$3,873,490	
Term notes on equipment purchased	3,862	$127,626
7.5% mortgage loan, North Carolina property, payable in level monthly payments through April 1978 — U.S. $23,219	25,411	
7.5% demand note dated January 31, 1970; payment deferred by holder to 1979 — U.S. $50,000	55,415	
Sundry other mortgage loans	28,800	30,800
	3,986,978	158,426
Less		
Portion due within one year included in current liabilities	469,033	125,764
	$3,517,945	$ 32,662

The term loan is divided into two parts, interest on the first part — $1.5 million — is fixed for 5 years from October 19, 1977 @ 9.375%. Interest on the second part — $2 million — bears interest at LIBOR rate plus 1% or 114% of the New York prime rate as selected by the company at specific option dates.

9. Minority Interest

The minority interest consists of 2,360 Class A 9.6% cumulative, redeemable, preference shares, par value $100 each, issued by selected by the company at specified option dates.

10. Lease Obligations

The company has three long-term leases related to industrial mineral deposits from which ore is being removed.

Deposit	Annual rental	Maturity
Limestone aggregate	$90,000 plus a royalty on sales (minimum in 1978 — $65,870) and a participation in profits	1980 — with options to renew for further 5-year periods until 2008
Silica	$20,000	1994 — with renewal privileges
Feldspar	Royalty on ore removed, minimum U.S. $6,000	1991 — with option to renew for 10 years

11. Unfunded Pension Benefits

Based upon the most recent actuarial reports, Indusmin Limited and subsidiary companies have unfunded pension benefits of $1,778,024 which have not been provided for in the accompanying financial statements at December 31, 1977 and for which the company has no legal obligation. The company intends to fund this amount over periods not exceeding fourteen years.

12. Directors and Senior Officers

The company has seven directors who received aggregate remuneration as directors of $19,685. Six of these directors were also directors of the subsidiary company, Fahramet Limited, receiving a total of $605 for their services as directors. Indusmin Limited has seven officers whose remuneration in 1977 totalled $274,530. One of these officers was also an officer of Fahramet Limited, his remuneration aggregating $1,695 from that company.

13. Anti-Inflation Legislation

The company and its Canadian subsidiary, Fahramet Limited, are subject to the anti-inflation legislation which provides for the restraint of profit margins, prices, employee compensation and dividends. In the opinion of management, the companies have complied with the guidelines established under the legislation. Dividends to the shareholders of Indusmin Limited during the twelve months' period ending October 13, 1978 may not exceed $0.85 per common share.

Statistical Summary

(Dollars in 000's except amounts per share)

	1977	1976	1975	1974	1973
Operating results					
Sales	$42,442	$38,831	$22,263	$17,863	$16,145
Operating profit —	3,694	4,801	3,576	2,459	2,515
— % of sales	8.7%	12.4%	16.1%	13.8%	15.6%
Interest expense	691	688	298	314	274
Other income	72	74	86	84	198
Income before taxes	3,075	4,187	3,364	2,229	2,439
Income and mining taxes	1,004	1,438	1,379	963	763
Minority interest	23	21			
Net income —	2,048	2,728	1,985	1,266	1,676
— % of sales	4.8%	7.0%	8.9%	7.1%	10.4%
— per share	$1.75	$2.25	$1.70	$1.08	$1.44
Extraordinary item		163	(68)	130	160
Net earnings —	2,048	2,891	1,917	1,396	1,836
— per share	$1.75	$2.39	$1.64	$1.20	$1.57
Capital & mine development expenditures	5,495	4,649	2,839	2,800	1,439
Depreciation, amortization & depletion	2,567	2,395	2,218	2,178	2,060
Cash flow from operations	4,959	5,795	4,707	4,437	3,777
Financial position					
Working capital	$ 5,616	$ 3,789	$ 3,589	$ 2,269	$ 1,637
Net plant & equipment	18,082	15,129	12,850	12,121	11,331
Total assets	36,586	32,895	26,054	21,206	20,454
Shareholders' equity	19,461	18,405	16,562	15,521	15,001
% Return on shareholders' equity	10.5%	15.7%	11.6%	9.0%	12.2%
Dividends					
Common — paid	$ 993	$ 946	$ 876	$ 876	$ 876
— per share	$.85	$.81	$.75	$.75	$.75
Common shares outstanding 31st December	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901

NOTES:

1977 — reflects the acquisition of Lawson-United Feldspar & Mineral Co. effective July 1, 1977.

1976 — reflects the purchase of the assets and business of Fahralloy Canada Limited effective January 1, 1976.

1975 — reflects the acquisition of Fahralloy-Wisconsin Limited effective July 1, 1975.

This Annual Report has been bound into a copy of the new Corporate Brochure which describes Indusmin's various operations on the following pages.

The Company

Indusmin Limited, a member of the Falconbridge group of companies, was established in 1935 as a small operation producing the industrial mineral nepheline syenite. It has since grown to a multi-product, multi-operation company selling in over 20 countries in the world.

Within the Minerals Division the company mines and processes nepheline syenite, silica, and aggregates at seven locations in Ontario, and Quebec, as well as feldspar, mica, and silica in North Carolina, U.S.A. These valuable industrial minerals are used as raw materials for glass, ceramic whitewares, paint, plastic products, silicon carbide, ferrosilicon, concrete products, asphalt paving, erosion protection, and roofing.

The Castings Division operates a wholly-owned subsidiary, Fahramet Limited, a major producer of ferrous steel castings with complete machining and fabrication facilities located at Orillia, Ontario. Fahramet serves a diverse array of industries such as petrochemical, steel, nuclear, cement, industrial furnace, mining, pulp and paper and materials handling.

Indusmin's success and leadership can be attributed to a continuous commitment to research, technical expertise, quality control and customer service.

1. At the Falconbridge Metallurgical Laboratories, experiments in shielded-arc welding improve fabrication techniques to help satisfy Fahramet customers' needs.

2. At the Indusmin Laboratory in Nephton, Ontario, a technician analyzes nepheline syenite using an atomic absorption spectrophotometer.

3. X-ray fluorescence spectroscopy is one technique used in the analysis of minerals at the Indusmin laboratory in Don Mills, Ontario.

4. Spectrometer analysis of each heat of metal is used for quality control at Fahramet.

5. At the Indusmin Research Centre a wide range of skills are used to study mineral processing. Shown here is a froth flotation test.

Technical Centre

Each Indusmin location has its own facilities to assure the high standard of quality control that has become a company trademark.

A Technical Centre in Toronto supports each operation and provides technical service to assist customers. Research is also carried out at this location on product applications and process development.

The Technical Centre is staffed by expert technicians and engineers with a wealth of knowledge and experience in the fields of glass, ceramics, paint, plastics, rubber and building products. It is one of the most completely equipped laboratories in Canada for industrial mineral analysis and research.

The services of the Technical Centre are available on a contract basis to carry out projects for companies other than Indusmin. A number of projects have been completed and several are in progress on materials from various countries around the world.

For marketing and production support to the Fahramet steel foundry operations, the facilities of the Falconbridge Metallurgical Research Laboratories, near Toronto, are utilized extensively.

Nepheline Syenite

One of the most remarkable of the industrial minerals produced by Indusmin is nepheline syenite which is mined commercially in only three countries in the world — Canada, Norway and Russia. Indusmin's 2200 acre ore body and modern processing plant is situated at Nephton, 35 miles north of Peterborough, Ontario, Canada.

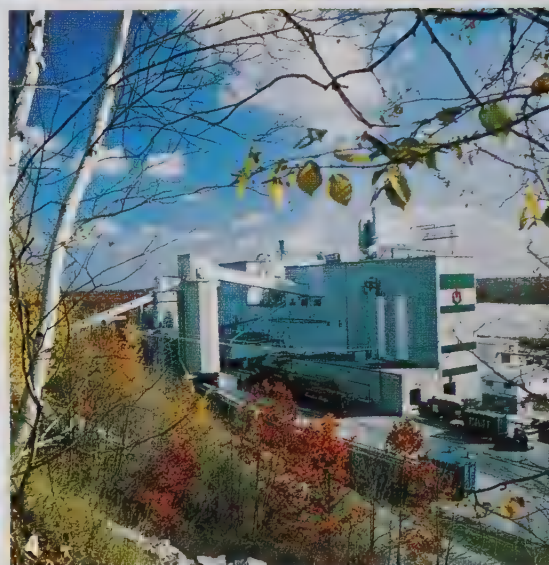
The nepheline syenite in this ore body is a unique combination of albite feldspar, microcline feldspar, feldspathoid nepheline and minor accessory iron-bearing minerals such as magnetite. It contains no free silica and resembles granite in texture and hardness.

More than one-half million tons of ore per year are crushed in several stages to sand products, which are passed over magnetic separators to remove the iron-bearing minerals. The resultant sand product is shipped as is, or ground in pebble mills to flour consistencies, depending on the market requirements. An extensive quality control program from mining control, for chemical uniformity, to sophisticated screening and classification equipment, to control particle size uniformity, assures consistency from one shipment to the next.

Because of this uniformity, nepheline syenite is a highly desirable raw material for the manufacture of glass containers used in industries such as brewing, soft drinks, food, cosmetics and pharmaceuticals; fiberglass insulation; ceramic whiteware products such as bathroom fixtures, floor and wall tile, china, artware and pottery. Nepheline syenite also has important uses as a paint extender pigment and plastics filler.

Although millions of tons of nepheline syenite have been mined, ore reserves have been proven that will meet increased market demand well into the 21st century.



1, 2, 3, 5. Some typical applications of nepheline syenite include: ceramic bathroom fixtures, ceramic floor and wall tile, paint, container glass, and dinnerware.

4. A view of the large processing plant at Nephton, Ontario.

6. Drilling rig in position at Nephton.

1. Because of its highly abrasive qualities, Indusmin silica sand finds a valuable use as sandblast material to clean building exteriors.

2. Indusmin's silica processing plant at Midland, Ontario.

3. An aerial view of Indusmin's Quebec Silica Operations at St. Canut, Quebec.

4. Sheet glass, one of the applications for silica, is used extensively in modern highrise office buildings.

5. Another example of the use of silica is for the production of silicon carbide used as the abrasive grain in this sanding pad.

6. An aerial view of stock piles and loading facilities for silica at Badgeley Island near Killarney, Ontario.

7. With more emphasis on energy conservation through better home insulation, the use of Indusmin silica and nepheline syenite in fiberglass has greatly increased.

Feldspar

Indusmin's newest operation is Lawson-United Feldspar and Mineral Company. Lawson-United mines alaskite ore from the Smoky Mountains at the town of Spruce Pine, North Carolina. The ore is crushed and ground to a sand which is processed by flotation to produce feldspar, silica and mica. Both sand and finely ground products are supplied to markets primarily in the South Eastern portion of the United States. The ore body at Spruce Pine is a major source of feldspar in the United States and possibly is the largest in the world.

Feldspar products are used in the manufacture of glass and ceramic whitewares and as a filler or extender in plastics and paints. This complements the markets for nepheline syenite in the United States.

The silica product is of high quality and is used for essentially the same applications as Canadian silica, produced in Ontario and Quebec. It is also suitable for production of extremely high purity silica grades with iron content as low as 10 parts per million. These products are used to produce glass lenses, crystal, heat lamps and glass fibre for light transmission.

The mica production is ground for use in the manufacture of such products as roofing, rubber and plastics.

Silica

The diverse list of products that involve the use of high purity silica sand and flour is almost endless. If you are a golfer you may play a trap shot from silica sand; around the home silica is part of windows, bottles, mirrors, bathroom fixtures, household cleaners. In industry and construction, fiberglass insulation and concrete building products use silica as a raw material, and coarser grades of silica are used for sandblasting in the cleaning of buildings. Silicon carbide, produced from silica and coke is the abrasive grain in grinding wheels and sand paper. Coarse quartzite stone goes into production of ferrosilicon which finds applications in various metallurgical processes.

Indusmin's history in the silica business is one of steady growth and expansion. In 1964, the first operation was acquired at St. Canut, Quebec and in 1967 an ore body and plant was added at St. Donat, Quebec. Silica production in Ontario began in 1970 with the start-up of a modern processing mill at Midland, Ontario, which receives crude ore from Badgeley Island near Killarney, Ontario.

As in the case of nepheline syenite and alaskite, the quartzite ore is crushed and ground to sand products, a portion of which are ground further to flour products. Quality is maintained by selective mining control, screening, and classification.

Construction Aggregates

Indusmin is a reliable source of crushed limestone aggregates with operations at Halton and Acton just to the west of Metro Toronto. These plants supply a full range of aggregate products to the huge construction industry in Central Ontario. To provide efficient service in Toronto, unit-trains carry aggregates to distribution yards at Pinecrest and Scarborough. Total capacity exceeds 3 million tons per year.

Construction aggregates are used extensively for concrete and asphalt highway paving as well as in ready-mix concrete for commercial building construction. Closely sized products are used in production of concrete building products. Other aggregate products, such as lump-size gabion stone, halt erosion along the banks of creeks and rivers. Rip rap and armour stone, which are large blocks of limestone, are used in dyke construction and as breakwaters for shore protection. Aggregates are also used as bedding for water mains and sewer lines.

Production of aggregates is accomplished by crushing the limestone and screening into various size distributions in a series of screening towers. Separate circuits produce specially sized products. The resultant flexibility and control of the operations allows almost any size specification to be met.

1. Typical applications for Indusmin construction aggregates are concrete ready-mix and concrete blocks.

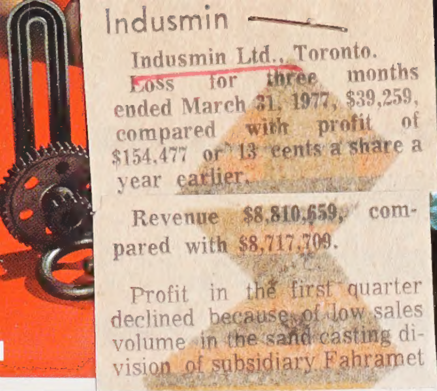
2. Armour stone is another product of the Aggregates Division. Shown here is 3 to 5 ton armour stone being placed in the construction of a dyke.

3. One of the many products supplied to the construction industry from the Aggregates Division is gabion stone. As illustrated, when placed in earth cuts and exposed areas, it prevents erosion.

4. An aerial view of the quarry at Halton, Ontario.

5. Indusmin aggregates are used in the concrete as well as in the bedding for these large diameter sewer pipes.

6. Loading of rail cars from stock piles of crushed limestone at Acton, Ontario.



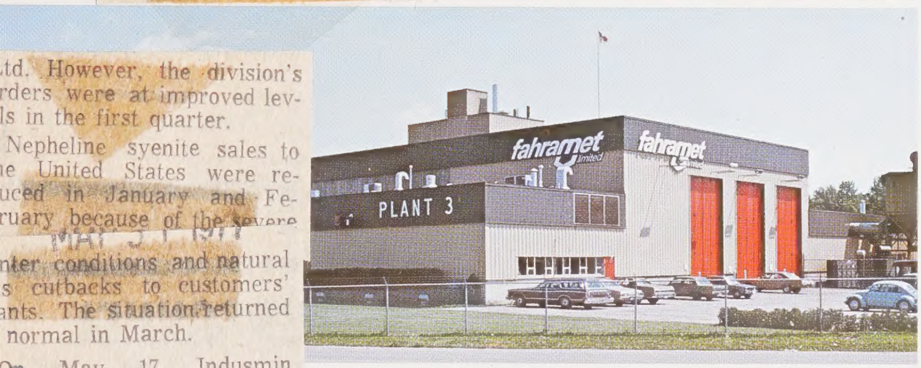
Indusmin

Indusmin Ltd., Toronto. Loss for three months ended March 31, 1977, $39,259, compared with profit of $154,477 or 13 cents a share a year earlier.

Revenue $8,810,659, compared with $8,717,709.

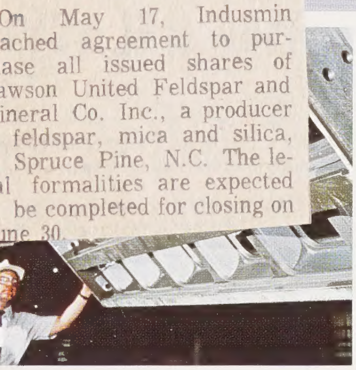
Profit in the first quarter declined because of low sales volume in the sand casting division of subsidiary Fahramet

2

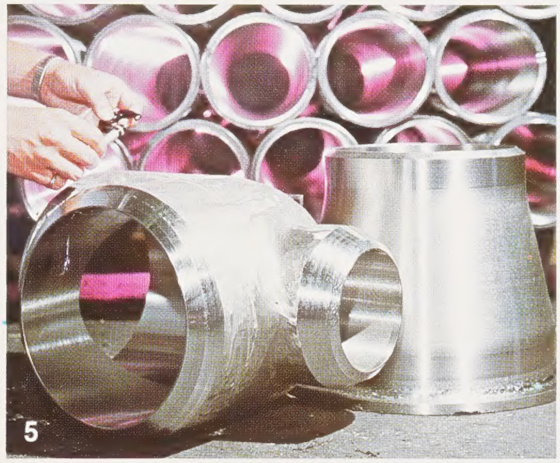


td. However, the division's rders were at improved levls in the first quarter.

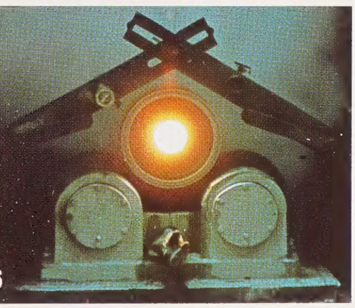
Nepheline syenite sales to ne United States were reuced in January and Feruary because of the severe nter conditions and natural s cutbacks to customers' ants. The situation returned normal in March.

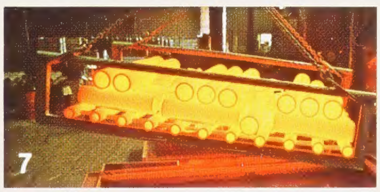


On May 17, Indusmin ached agreement to purase all issued shares of awson United Feldspar and ineral Co. Inc., a producer feldspar, mica and silica, Spruce Pine, N.C. The lel formalities are expected be completed for closing on une 30.



5





7

1. Shell moulded castings. Economic for large volumes. Close tolerances, fine reproduction of detail, minimize machining allowances.

2. Assemblies of green sand, no bake, or shell castings. Intricate sections, heat resistant alloys for industrial heat treat furnaces and abrasion resistant alloys for mining and general manufacturing.

3. One of Fahramet's 4 plants in Orillia, Ontario.

4. Pallet centre casting for a pelletizing machine used in the beneficiation of iron ore.

5. Horizontal and vertical centrifugals. Up to 4,000 lbs in all alloys. Irregular shaped verticals give high integrity for nuclear, petrochemical, aircraft, pump, valve and basic steel industries.

6. Centrifugal casting provides high integrity through directional solidification under forces in excess of 100 times the force of gravity.

7. Heat treating facilities. Annealing and hardening with air, water and oil quench.

Steel Castings

Fahramet is the only Canadian source, and one of the few in the world, offering such a broad range of alloy steel castings. All operations of the company are located in Orillia, Ontario.

Castings are produced by green sand, shell, no-bake, and centrifugal moulding methods. Large and well equipped fabrication and machine shops are also operated in conjunction with the foundries. The diversity of moulding capabilities combined with melting furnaces of various types and sizes allows considerable flexibility in weight, shape and volume of castings, as well as a wide range of metal analyses in stainless high alloy, carbon and low alloy, and manganese steels. Fabrication and machining facilities offer a completely integrated flexible source of steel castings and manufactured assemblies.

As a leading producer of castings for heat resistant, corrosion resistant and abrasion resistant applications, Fahramet serves industries such as petrochemical, nuclear, steel, cement, mining, pulp and paper, materials handling, industrial furnaces and aircraft.

Fahramet's Quality Assurance Team is staffed by professionals with skills to ensure that the highest standards are maintained throughout every stage of production. In addition to normal types of physical and chemical testing facilities, dye checking, radiography and hydrostatic testing methods are regularly carried out to meet exacting specifications required in markets such as nuclear and petrochemical.

Indusmin Limited, Suite 200, 365 Bloor Street East, Toronto, Ontario M4W 1H7 Phone: (416) 967-1900
Fahramet Limited, Wyandotte & Victoria, Orillia, Ontario L3V 6L6
American Nepheline Corporation, P.O. Box 14445, Columbus, Ohio 43214, U.S.A.
Lawson-United Feldspar & Mineral Co., P.O. Box 309, Spruce Pine, North Carolina 28777, U.S.A.

Printed in Canada

Mineral Co. Inc., a producer of feldspar, mica and silica, at Spruce Pine, North Carolina. Negotiations are proceeding satisfactorily but slower than anticipated. We expect that all remaining legal formalities will be completed in August.

COLLECTIVE BARGAINING

There are two labour agreements covering the employees in the Ontario Silica Operations; both expired in April. A new agreement has been signed with the employees at Badgeley Island and has been submitted to the Anti-Inflation Board for their approval. Negotiations at the Midland Plant are at the conciliation stage.

OUTLOOK

With the serious deterioration in earnings from the Sand Casting Division, it will be most difficult in 1977 to recover to the earnings level of 1976. Every effort is being made to maximize profitability of this Division over the remainder of the year and at the same time, maintain all other Operations at profit levels achieved during the first half of the year.

C.M. Woodruff
Executive Vice-President
Toronto, Canada
July 28, 1977

indusmin limited

Commerce Court West, P.O. Box 40,
Toronto, Ontario, Canada. M5L 1B4

PRINTED IN CANADA

indusmin limited

Quarterly Highlights

Interim Statement
for six months ended
June 30, 1977

indusmin limited

Interim Statement

For six months ended June 30, 1977 (with comparative figures for 1976)

	1977	1976
OPERATIONS		
Sale of all products	$20,188,308	$19,209,095
Costs of products sold	15,077,549	13,169,063
Selling, general and administrative expenses	2,471,371	2,654,801
	17,548,920	15,823,864
Operating profit before write offs	2,639,388	3,385,231
Depletion, depreciation and development expenditures written off	1,191,023	1,204,735
Operating profit	1,448,365	2,180,496
Interest expense	307,330	390,222
	1,141,035	1,790,274
Income from investments	8,380	4,190
Net income before taxes	1,149,415	1,794,464
Income and mining taxes - currently payable	210,524	675,496
- deferred	180,307	(35,840)
	390,831	639,656
Net earnings for the period	758,584	1,154,808
Provision for dividends on preferred shares	11,329	35,606
Net earnings applicable to common shares	$ 747,255	$ 1,119,202
Earnings per common share	$ .64	$ .96
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION		
Source of Funds		
Net earnings for the period	$ 758,584	$ 1,154,808
Depletion, depreciation, development expenditures and other charges (net) not involving current outlay of funds	1,191,023	1,204,735
Deferred income and mining taxes	180,307	(35,840)
	2,129,914	2,323,703
Issue of Fahramet preferred "A" shares	—	236,000
Proceeds from preferred shares	—	1,764,000
Decrease in sundry other assets	2,161	9,108
	2,132,075	4,332,811
Application of Funds		
Expenditures on property, plant and equipment	669,212	3,014,429
Provision for payment on notes and mortgage loans	4,862	128,626
Dividends - common shares	291,975	291,975
- preferred shares	11,329	35,606
	977,378	3,470,636
Increase in working capital	1,154,697	862,175
Working capital - beginning of period	3,907,528	3,588,750
Working capital - end of period	$ 5,062,225	$ 4,450,985

Note: 1. Figures are unaudited. 2. Property, plant and equipment additions in 1976 include those acquired from Fahralloy Canada Limited.

INTERIM REPORT FOR SIX MONTHS ENDED JUNE 30, 1977

Consolidated sales were up 5 percent in comparison with the same period in 1976, due entirely to the continuing strong performance of the Industrial Minerals and Construction Materials Divisions. Earnings were substantially reduced, however, by the lower than expected contributions from the Sand Casting Division of Fahramet.

SALES (000's Omitted)	Six Months 1977	Six Months 1976
Indusmin		
Industrial Minerals Division	$ 9,747	$ 8,112
Construction Materials Division	2,008	1,356
Total	11,755	9,468
Fahramet		
Centrifugal Casting Division	3,021	3,437
Sand Casting Division	5,412	6,304
Total	8,433	9,741
Consolidated Total	$20,188	$19,209

EARNINGS (000's Omitted)	1977	1976
First Quarter - Indusmin	$ (93)	$ (204)
- Fahramet	48	358
Second Quarter - Indusmin	772	529
- Fahramet	32	471
Six Months Total	$ 759	$ 1,154

BALANCE SHEET (000's Omitted)	As at June 30 1977	As at June 30 1976
Accounts Receivable	$ 8,142	$ 7,848
Bank Advances	7,567*	7,804
Shareholders' Equity	18,979*	19,179

*After redemption of $1,764,000 preferred shares on December 21, 1976.

In view of the depressed level of sales in the Sand Casting Division, and the lack of any sign of early improvement, a major reduction in the work force is being undertaken at Fahramet during the Third Quarter. Other cost reduction and productivity improvement programs are underway in an endeavour to improve profit margins.

U.S. ACQUISITION

The First Quarter Report notified the shareholders that Indusmin had entered into negotiations for the purchase of all the issued shares of Lawson United Feldspar and